VII.

SUBSTANCE AND SHADOW IN FINANCE.

THE citizens of the United States are of the opinion generally that a paper currency, in the form of United States notes ("greenbacks") or national-bank notes, is at once more economical and more convenient in use than the metals, whether gold or silver. Two questions remain which are open to serious dispute:

1. Shall the paper currency be redeemable in coin?
2. Whether so redeemable or not, shall it be exclusively of greenbacks, exclusively of national-bank notes, or a currency composed in part of each?

The notion that a government may make a declaration upon a piece of paper, that the piece of paper on which the declaration is made is one dollar or one thousand dollars, the difference being a difference of typography alone, is a very modern notion, which one of its advocates attempts to dignify by calling it "the American system of finance." As a notion it is American, but as a system it has as yet no existence in this or in any other country. Experiments containing everything that is proposed by the advocates of this experiment, and something advantageous in addition thereto, have been tried, and in every instance they have failed.

The French notes called assignats asserted first their value respectively, and they were also made receivable for all public and private obligations and debts. The national domain was pledged for their redemption, the penalty of death was declared against counterfeiters, the nation promised to recompense informers, and art contributed an effigy of the goddess of justice holding the scales evenly balanced, and an effigy of the goddess of liberty announcing the rights of man. Yet, in spite of all these declarations, safeguards, and inducements, the French assignats became utterly worthless, and were stowed away in closets and garrets until the civil war in America, when the neglected accumulations were brought out and sold to the manufacturers of new paper. Every quality of

goodness which the genius of our American financial reformers has yet suggested may be found in the French assignats, with the promise of redemption added thereto ; and yet they depreciated in purchasing power, and disappeared finally from the business channels of the country.

Again, the experiment was tried by the Southern Confederacy during the civil war. The notes of that government were endowed with every quality that is proposed for the currency to be issued under "the American system of finance," to all which was added a stipulation as to redemption—remote and contingent, to be sure, but not more harmful, it would seem, than a pledge perpetual of non-payment. In the end it could be said truthfully of that American system of finance, that a householder would carry his money to market in a basket, and take home his dinner in his waistcoat pocket.

Our own experience was the same in kind, though not so disastrous in the results. The greenback bore a declaration of its value, supported by the promise of the Government to pay the holder thereof, at a time future but not specified, a sum in gold or silver coin equal to the value declared. It was receivable by the Government for postage, for excise and direct taxes, and it was a legal tender for all private debts ; and yet, in spite of its qualities and uses, and the obligations it carried with it, the greenback depreciated until it was worth in gold no more than thirty-five cents on the dollar.

The advocates of "the American system of finance" have one position only ; and if that be indefensible, then their scheme is a failure altogether. It is this : A government, by its official and absolute decree, can give to that which has no appreciable value in itself a continuing, commercial purchasing power. The attempt to do this was made in fact, though not in form, by France, by the Southern Confederacy, and by the United States, and in each instance the undertaking was a failure. Further, it is to be said that the history of the world furnishes no evidence of the success of the experiment in any country or in any age. Is it urged that the failure in all these cases was due to circumstances? If so, then the power claimed for a government is not an absolute power, but only a capacity to do a certain thing when the circumstances are all favorable. There have been three trials by three different governments, under differing conditions, at times quite remote from each other, and each and every of the trials was a signal failure. Thus far all

the circumstances have been unfavorable, if tested by the results; and who among the prophets can forecast the circumstances that wait on success?

In the presence of this experience, is the suggestion out of place that there may be inherent difficulties attending the project which the advocates of "the American system of finance" can not remove? A piece of plain paper, of the size of a United States note, is of so little intrinsic value as to defy expression except in vulgar or decimal fractions. The proposition is, that by the mere declaration of a government imprinted upon this paper it at once takes on the quality of value, or that all men will so assume, and upon the assumption so act in all the business affairs of the country.

The statement of this absurdity in the alternative ought to be its refutation. Can a government, a mere human government, create something out of nothing—make that valuable which, in the opinion of all mankind, is valueless? Or, if it can not do that or this, can it by a decree so change the opinions of men in mass that they will accept as valuable that which in fact has no value, and after experience so continue to act through indefinite periods of time? The best evidence that men might be so deluded is to be found in the wickedness of those who propose the measure and in the folly of those who accept it. The existence of such classes, even though they bear a small proportion only to the whole, is suggestive of a state of society in which the wildest absurdities and the most dangerous vagaries may flourish for a time.

When the advocates of fiat money propose to limit its issue, or when they assert that the failure of previous experiments was due to the limitation of uses to which the currency was applicable, as the refusal of the Government to accept greenbacks for customs duties, they admit that the quality of value does not inhere in paper decreed money by a government. And if paper bearing the decree of a government that it is money have no intrinsic value, and if it carry not a promise of some other thing that is valuable, then it lacks each and both the essential qualities of a currency. Having in itself no value, and not bearing on its face a promise of something of value, no man in his senses would surrender actual property in exchange for it.

Every business transaction, from the barter of a dozen of eggs for a pound of sugar to the sale and purchase of an empire, has in it as the essential quality one or the other of two conditions and stipulations—either the exchange of one thing of value for another

thing of value, or the surrender of one thing of value for the promise of another thing of value. The currency of a country, the currency of the world, the medium of exchange—that is, the means by which transfers of property from one to another are effected—must answer to one or the other of these conditions. It must be either valuable in itself, or it must bear on its face the promise of something valuable to him who receives it.

A conspicuous leader in financial reform, and the author of the phrase "the American system of finance," has admitted recently that there must be a limit to the issue of fiat money; and it is the general assertion of the friends of the system that the issue is to be limited to the wants of trade. These concessions are an admission that what is called fiat money has no intrinsic value; and as it carries no promise of redemption in any valuable thing, it lacks manifestly both the essential qualities of a currency. Its capacity for circulation must depend, therefore, upon the prevalence of the admitted error that it is valuable. The advocates of this scheme may wisely consider whether a public policy which rests upon an apparent and actual falsehood can long withstand the assaults of truth.

It is a popular saying that the currency of the country should be sufficient for the wants of trade. If it is meant by this that the currency should be sufficient to satisfy the wants of tradesmen, there is reason to apprehend that the limit would never be reached. The truth is, that the honest wants of trade are limited by the rights of trade, and the rights of trade are easily understood when we examine its nature. As before stated, trade is the exchange of one thing of value for another thing of value, or the surrender of one thing of value for the promise of another thing of value. When, therefore, the possessor of property yields his title to another, he should receive other property in return or a promise of other property; and when this is not done, he is the subject of a wrong.

Upon the argument already presented it is apparent that the currency of a country should either be intrinsically valuable, or it should bear a promise that the holder may at his pleasure command the sum specified in that which possesses intrinsic value. The honest wants of trade can not be made to extend beyond a currency possessing one or the other of these qualities; and a currency possessing either of these qualities, from the nature of the case, must be limited in amount.

The friends of the fiat system of money dogmatize thus: The Government takes a piece of gold, stamps upon it *one dollar*, makes

no provision for its redemption, and it passes from hand to hand, answering all the purposes of business; and if the Government but so will, it may do the same with a piece of paper and with the same results. As the agent to be employed, to wit, the Government, is the same in both cases, the proposition must be true unless there is an intrinsic difference between a piece of gold and a piece of paper; but if a difference shall be made to appear, then with equal certainty is the proposition false.

In this connection it may not be amiss to consider the fact that there is not a human being in any civilized country who, having in his possession an article of property with which he is willing to part, will not dispose of it for a quantity of gold. This statement is equally true of every civilized nation during the entire historical period; and with slight qualifications, it is also true of semi-civilized and savage races and tribes of men. Can this be said of paper, whether tendered in its office of money or otherwise? There is a universal desire for gold, and gold is the only product of nature or of art for which a universal desire exists.

Next it is to be said that the act of the Government in coining gold does not in any sensible degree affect its value. The piece of gold stamped *one dollar* had the same intrinsic value when it entered the mint as when it came from the mint, and its nominal value conforms very nearly to its intrinsic value. The Government assays the gold, weighs the gold, stamps the coin for the convenience of those who have occasion to use it; but if the agency of the Government were withheld, the owner of gold could purchase everything that he might desire in all the markets of the world. Can the same be said of paper, even though coined, to use a favorite word of the friends of "the American system of finance"?

Further, it is to be said of gold that its cost, measured by the application of human labor to its production, is equal to its purchasing power of other articles which are also the products of labor. Can this be said of coined paper dollars, of fiat paper, of paper which carries no promise of redemption? By the use of steam and power presses the Government could produce a million dollars of coined fiat paper money by an expenditure of labor paid in gold not exceeding one hundred dollars. A million dollars of gold brought out of the Rocky Mountains costs in labor as much as the quantity of wheat brought out of the prairies that the million of gold will purchase.

Nor should the suggestion be omitted that the human mind can

not conceive of such an addition to the quantity of gold as to destroy its value either in mass or as coin. The purchasing power of a given weight or of a specific coin would diminish by an increase of production, but gold would still remain the one solvent of every financial transaction. On the other hand, no one, not even the wildest advocate of an irredeemable currency, denies the possibility of such an issue of paper, whatever its nature or form, as to render it in its parts and as a whole utterly valueless.

If the distinctions pointed out are not altogether visionary, they furnish a complete refutation of the proposition that, inasmuch as the Government coins gold, stamps it, and makes no provision for its redemption, it may therefore safely and wisely coin paper, stamp it, issue it, and leave it to its fate.

Underlying all the visionary theories of the advocates of irredeemable paper money is the error that value or wealth is *created* by human agency. What we call wealth, the result of human labor and the object of human desire, is, in the specific things of value, but the product of the combination of forces and elements previously existing. The province of man is to change the position of things, to make new combinations, to call to his aid the forces of nature. By the use of these processes and agencies, which demand labor on his part, he produces articles of value ; and the general rule is, that the value is measured by the labor required.

Proceeding upon the view submitted that an irredeemable paper currency, as a permanent public policy, is incompatible with national honesty or private prosperity, it remains to be said that the use of paper redeemable in coin is not free from peril ; but it is at once the most convenient and the most economical means of transacting both public and private business. When there is but little demand for coin in a country, as in the United States at the present time, it is possible for the Government and the banks to increase the issue of notes, even though redeemable in coin, to such an extent as to inflame prices, promote speculations, and involve merchants and business men in distress and bankruptcy. This is the tendency, and under the old State-bank system it was a frequent result. There are, however, counteracting influences. An advance in prices is soon followed by a change in the balance of trade. Exports diminish, imports increase, and the result is a demand for coin. The apprehension of such a demand operates as a check upon banks, and they avoid a course of action which they foresee can end only in disaster. If, however, the precautionary policy is not adopted gen-

erally, a change in the balance of trade and a demand for coin furnish an early and wholesome corrective of any over-issue of paper. This corrective is equally efficacious whether the issues of paper are by the Government directly or through the agency of banks.

The old theories in favor of an exclusively metallic currency have disappeared. When financial transactions, both public and private, were limited in amount, when in the agricultural sections of the country the business was chiefly by barter, and when there were but few opportunities of communicating with the centers of wealth and trade, a partiality for a metallic currency was both natural and wise. But the condition of the country has changed in the nature and magnitude of its productions, in the habits of business of its inhabitants, especially of the agricultural sections, and in the means of communication. These changes involve the disuse of coin for ordinary business, and the substitution of paper, whose volume and quality can only be fixed by the circumstance that the holder may at any moment command the coin of the Government or bank by whose authority the paper was issued.

The securities against an over-issue of paper redeemable in coin are: first, a public judgment expressed in the laws of the country; then the wisdom and foresight of those intrusted with the management of the issues, whether by the national Treasury or by the banks; and, at last, the correctionary force of the inevitable demand for coin when the balance of trade is against us. While it can not be maintained that these securities will prove sufficient at all times, it can be said with truth that the wisdom of men and the laws of business have as yet furnished none better.

The convenience of paper as compared with coin is established by the fact that a thousand dollars of silver weighs about sixty pounds, and an equal value of gold weighs more than one twentieth as much. Such is the magnitude of business, both public and private, that its transaction would be impossible if only coin could be employed.

The relative economy of paper is worthy of notice also. The annual interest on a metallic circulation sufficient for the country would not be less than $25,000,000; while the interest upon the coin reserve in the banks and the national Treasury need not be more than one third of that amount. Coin in general use deteriorates annually by abrasion about one per cent.; and the final losses of coin by individuals are a loss of property to the country, while the loss of paper by the owner is a gain to the bank issuing

it, or to the national Treasury, of an equal amount. The use of fractional subsidiary coins in place of fractional notes involves a loss to the Government of not less than $400,000 a year, and imposes upon the whole public a heavy burden in their use. If to the old system of fractional paper money there should be added a feature of redemption of mutilated currency by the post-offices, our change-money would be at once both economical and agreeable.

The conclusions to which assent is now asked are : first, that a paper currency is more convenient and economical than a currency of coin ; and, secondly, that the paper currency should at all times be redeemable in coin at the pleasure of the holder.

For further consideration there remains the question : Shall the paper currency so redeemable be exclusively of United States notes, exclusively of national-bank notes, or shall it be composed in part of each ?

It is the fortune of nations, as of individuals, that there is never a moment of time when they are so entirely free from all obligations as to be absolute masters of their own policy and conduct. Our financial policy has been dictated in its most important features by events and circumstances over which the nation had no control. An imperative necessity for money led to the overthrow of the State banking system, and the establishment of the national banking system in its stead. The same necessity compelled Congress to authorize the issue of greenbacks, and as early as 1862 to give a pledge in advance to those who might purchase our bonds that nothing but coin should be received for duties at the custom-houses, and that the coin so received should be applied to the payment of the interest and a portion each year of the principal of the public debt. If the faith of the nation is kept, nothing but coin can be received at the custom-houses, and the coin so received must be used in payment of the interest of the public debt, and each year to the extent of one per cent. of the principal, the latter appropriation to be treated as a sinking fund. This pledge creates a use for coin which will continue until the public debt is paid.

Out of our necessities as a nation came the issue of greenbacks and the national banks with their privilege of issuing notes, and the questions now are : Shall we abandon both, shall we abandon either, or shall we continue to use both ? To the extent of the volume of greenbacks in circulation the Government enjoys the benefit of the amount represented, and without the payment of interest. They constitute a debt without interest. Their redemption implies the

increase of the interest-bearing debt to a like amount, or the use of moneys or revenues which otherwise would be applied to the payment of the interest-bearing debt. As a currency the greenback is entirely satisfactory. Waiving the fact that hitherto the Government has not been prepared to redeem the greenback, it may be said with entire confidence that no nation ever had a better paper currency.

The national-bank notes are guaranteed by a pledge of Government stocks, and they are redeemed daily in greenbacks at the Treasury of the United States. In commercial value they are equal to greenbacks, and both circulate in every part of the country, without question and without loss. The item of exchange no longer appears as an expense in domestic commercial transactions, or upon the note-book of the traveler.

If we could treat the subject of finance solely as a question of profit and loss to the national Treasury, there would be no reason why we should not abandon the national banking system, and issue an amount of greenbacks equal to the volume of bank notes withdrawn. Something would be gained by the change. The interest saved by the substitution would slightly exceed the revenue now obtained by the States and nation from the taxation of the banks—say five million dollars a year. The province of a bank is, by the aggregations of capital represented by its stock, and by the receipt of moderate sums of money deposited by its patrons, to mass funds, and therefrom to make loans to merchants and manufacturers. Thereby they become aids to business. The profits of banks are derived from original capital, from circulation, and from deposits. Should the General Government assume the entire circulation of the country, the profits of banks would be limited to capital and deposits. At present the profits of country banks are derived chiefly from capital and circulation, while in the cities the profits are mainly from capital and deposits. The change proposed would deprive the country banks of the means of existence, and the proportion of surplus capital in the cities would be greater than it now is. Business must follow capital, and the change would tend to promote the wealth and population of cities at the expense of the country. The tendency to the cities is sufficiently strong already, but the abolition of the national banks would be an important aid in the same direction.

It would happen, however, that the abolition of the national banks would be followed by the restoration of the State-bank sys-

tem. The interior States and sparsely settled sections of country would not long rest quietly under a system which tended to impoverish them and to enrich the most wealthy sections of the Union. The overthrow of the national banks means the reëstablishment of the State-bank system, and the movement should be so treated. This will be the result, whatever may be the purpose of those who advocate the destruction of the national banks. These institutions are creditors to the amount of more than $800,000,000, and in prosperous times the aggregate liabilities to them of merchants and manufacturers would not be less than $1,000,000,000. The people and the authorities may wisely consider whether the overthrow of a system by which the debtor class will be compelled to pay $1,000,000,000, and to find credits elsewhere for the conduct of their business, can be effected without a shock that will touch every interest of society.

Nor is it easy to see how the restoration of the State system would benefit the national Treasury. The revenue derived from the present system amounts to more than $7,000,000 a year, which is to be considered in set-off against the advantages which the banks derive from their circulation. The States realize about $9,000,000 more.

In time, were the change effected, there would arise a conflict of interest between the General Government and the State banks. The circulation of national-bank notes and of greenbacks is now quite equal to the capacity of the country to maintain them at par with coin. The scheme proposed assumes that the bank notes are to be withdrawn and the volume of greenbacks increased by a corresponding amount, leaving the aggregate where it now is. This being done, an issue of notes by State banks would increase the volume of currency, and we should be again involved in the difficulties of an excessive volume of paper money, or the national Government would be required to retire greenbacks in proportion to the issue of State-bank notes.

Finally, after debate and controversy were over, the practical questions would be : Shall we have a currency composed in part of greenbacks and in part of national-bank notes, or a currency composed in part of greenbacks and in part of State-bank notes ? Shall we have a national currency under the control of the General Government and everywhere uniform, or shall we have a currency under the control of thirty-eight or more States, without uniformity of value, and subject to such rules and methods of redemption as the

different States may provide? If the view taken be sound, the abolition of banks of circulation is an impossibility, and the practical question is: Shall those banks be controlled by the several States or by the nation?

The banking system is now free, and the amount of capital employed from time to time will be determined by the business of the country. The resumption of specie payments will check the business of banking, and there is no reason to anticipate any considerable increase of banking capital within the next two years. Further, it is probable that the Government can keep in circulation from $300,000,000 to $350,000,000 in greenbacks. The law provides for the issue of certificates of the denomination of ten dollars and upward upon a deposit of silver coin. Ultimately, unless the act authorizing the coinage of silver is repealed, these certificates will form a part of the currency of the country. When that time arrives, the means of the Government to pay specie will be limited to the use of silver, and thus greenbacks and silver certificates will be of the same value. Under the silver bill there will be a steady addition to the volume of paper money, varying from $24,000,000 to $48,000,000 a year. This addition will be sufficient to produce a perceptible increase in prices, estimated in silver—an increase which ought to satisfy those who think that the legislation in regard to resumption has been beneficial to the creditor class and injurious to the debtor class. In truth, neither class has been affected seriously by the legislation of the last ten years. Since 1868 there has been no contraction in the volume of paper money which can be pleaded in justification of the statement that our financial troubles are attributable to that cause. Nor has legislation contributed to the causes and processes by which the premium on gold has been diminished.

The opening of the South to business furnished a new field for the use of paper. In these ten years population and business have increased, and the uses of money have increased also. These causes have produced the same results as would have flowed from an actual contraction in the absence of any new demand for money.

In prosperous times capital is in the hands of borrowers; in periods of depression it returns to its owners. Thus it happens that for the purposes of business the currency has been contracted in the sections of country where capital was most needed.

The depression of business, reducing the cost of domestic products, has stimulated our exports, and the same causes have dimin-

ished our imports. The result is, that the balance of trade is in our favor, the demand for gold for export has ceased, the products of our mines accumulate in the Treasury and bank vaults, and the premium on gold has disappeared.

The ability of the country to resume specie payments is not due to legislation, but to a condition of affairs which laws could neither create nor prevent. The suspension of railway-building, the discovery of dynamite, and the invention of the Burleigh drill are the contributors of chief force to the present financial condition of the country ; and dynamite and the power-drill will remain as aids to the Government in maintaining specie payments.

GEORGE S. BOUTWELL.